

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9011

INFO AMEMBASSY CAIRO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UI, EG

SUBJECT: EGYPT'S SHORT-TERM BANKING FACILITIES

REF: STATE 29994

SUMMARY: BANKERS IN LONDON REPORT THAT TRADE FINANCING UP TO TWO YEARS CAN BE OBTAINED WITH REASONABLE FACILITY AND GOOD DEGREE OF CONFIDENCE FOR REPAYMENT. SPREADS, WHILE HIGH, ARE DOWN FROM WHAT THEY WERE OVER SIX TO EIGHT MONTHS AGO. BANKERS ARE EXTREMELY RELUCTANT TO GRANT LONGER MATURITY TERM LOANS. THEY CITE SAUDI ARABIAN ASSISTANCE AS A MAJOR FACTOR BEHIND EGYPTIAN FINANCIAL VIABILITY. PRIVATE BANKING CIRCLES UNABLE TO GIVE QUANTITATIVE ESTIMATES OF SHORT-TERM BANKING FACILITIES, INDICATED NATIONAL BANK OF EGYPT WOULD BE ONLY SOURCE THEY COULD ENVISAGE THAT WOULD HAVE A FAIR APPROXIMATION OF WHAT DEPARTMENT WANTS. BANK OF ENGLAND DATA CANNOT CONFIRM \$1.8 BILLION FIGURE. END SUMMARY.

1. FINANCIAL ATTACHE TOOK THE LIBERTY OF EXPANDING DIS-
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CUSSIONS FROM "BRITISH BANKING CIRCLES" MENTIONED IN REF-

TEL TO A WIDER RANGE OF CONTACTS, INCLUDING CONVERSATIONS WITH KNOWLEDGEABLE SENIOR BANKING OFFICIALS (I.E., THOSE WHO TRAVEL TO EGYPT FOR THEIR INSTITUTIONS AND HAVE RESPONSIBILITY FOR LOANS BEING MADE) FROM TWO U.S. BANKS, A BRITISH CLEARING BANK, AND A CONSORTIUM BANK WITH EUROPEAN AND MIDDLE EASTERN PARTNERS. GIVEN DEPARTMENT'S INTEREST, MAIN POINTS REPORTED IN DETAIL.

2. ONE US BANK WITH BOTH TERM LOANS AND TRADE FINANCING ALREADY ON ITS BOOKS TO EGYPT INDICATES THAT TRADE FINANCING, PARTICULARLY FOR GRAIN IMPORTS, PROCEEDS WITHOUT DIFFICULTY ON A 180-DAY FINANCING BASIS. FINANCING MOST OTHER MAJOR COMMODITIES, INCLUDING COTTON AND COTTON SEED OIL, OBTAIN 360-DAY TERMS. THE SHORTER TERM MATURITIES CARRY SPREADS RANGING FROM 1-1/2 TO 1-3/4 WITH PERHAPS A 1/4 TO 1/2 ADDITIONAL CONFIRMATION FEE INVOLVED. SOME IMPORT FINANCING TAKES PLACE ON A TWO-YEAR BASIS WITH EQUAL PAYMENTS BEING MADE AFTER 12, 18 AND 24 MONTHS WITH A 2 TO 2-1/2 PERCENT SPREAD OVER LIBO OR, IF FINANCING IS FROM THE US, OVER THE US ACCEPTANCE RATE.

3. SOURCE INDICATED IT WAS EXTREMELY IMPORTANT TO WORK THROUGH AN EGYPTIAN IMPORTER'S BANK IN ORDER THAT IMPORT DOCUMENTS WOULD BE REGISTERED WITH THE CENTRAL BANK, IN ORDER TO ASSURE FOREIGN EXCHANGE WOULD BE AVAILABLE TO PAY FOR THE TRANSACTION. IN THESE CASES, LIABILITIES ARE PAID AT MATURITY.

4. IF LENDER DEALS WITH THE IMPORTER DIRECTLY RATHER THAN IMPORTER'S BANK THERE CAN BE AN APPRECIABLE TIME LAG (4 TO 8 WEEKS) AFTER MATURITY IN OBTAINING PAYMENT. THERE IS A TRADE FINANCING LAG IN PAYMENT WHICH THE LENDING BANKS EXPECT, ALTHOUGH IT APPEARS TO THIS BANKER THAT THE EGYPTIANS ARE FINANCING EVERYTHING THEY CAN TO THE MAXIMUM WHETHER OR NOT THERE IS A NEED TO DO SO IN ORDER TO OBTAIN OR FREE UP FOREIGN EXCHANGE TO FINANCE OTHER IMPORTS SUCH AS MACHINE TOOLS. THIS BANKER CONSIDERED THAT EGYPTIANS HAVE NO FREE OR NET FOREIGN EXCHANGE RESERVES LEFT AND ARE EXTREMELY DEPENDENT ON SAUDI ARABIA. EGYPT IS IN FRONT LINE OF THE COMBAT ZONE AND AS SUCH IS LIMITED OFFICIAL USE

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BACKED UP BY RICHER OPEC MEMBERS.

5. THIS SAID, OVER THE YEARS THE EGYPTIANS HAVE PAID THEIR DEBTS (AFTER ALLOWANCE FOR LAGS AND ROLL OVERS), BUT THEY ARE IN A PRECARIOUS POSITION. IT IS UNLIKELY THEY WILL EVER BE SELF SUFFICIENT IN FOOD. ON A SCALE OF 1 TO 4 IN TERMS OF CREDIT RATING (4 BEING POOREST), EGYPT WOULD GET ABOUT A 3. GETTING BACK SINAI OIL

FIELDS WILL HELP CUT TOTAL IMPORT COSTS, BUT THIS BANK
WOULD NOT NOW CONSIDER GIVING EGYPT A TERM LOAN ALTHOUGH
IT HAS DONE SO IN THE PAST.

6. REPRESENTATIVE OF A U.S. COMMERCIAL BANK AND INVEST-
MENT BANK ACTIVE IN THE MIDDLE EAST REPORTS THAT FINANCIAL
COMMUNITY IS NOT ESPECIALLY NERVOUS ABOUT EGYPTIAN DEBT

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ALTHOUGH IT IS CLEAR EGYPT CANNOT EARN ENOUGH FOREIGN EX-
CHANGE TO PAY FOR ITS IMPORTS. IT NEEDS ROUGHLY \$1 BIL-
LION A YEAR IL HELP FROM SAUDI ARABIA AT A MINIMUM.
SPREADS ON LOANS TO EGYPT 6 TO 8 MONTHS AGO WERE UP TO 4
PERCENT OVER LIBO. THEY HAVE SINCE DECLINED. THE STAN-
DARD GRAIN LETTER OF CREDIT MAKES PROVISION FOR EQUAL RE-
PAYMENTS AFTER 12. 18 AND 24 MONTHS WITH SPREADS OF 2 TO
2-1/2 PERCENT. NO TERM LOANS ARE BEING DONE ON A COMMER-
CIAL BASIS. THE LONGEST MATURITIES THE BANKING COMMUNITY
WILL CONSIDER ARE 24 MONTHS, ALTHOUGH THE BULK IS IN THE
6-MONTH RANGE. THIS BANKER CONSIDERED THAT SPREADS AT

THIS LEVEL WOULD BE IN THE 2 TO 2-1/2 PERCENT RANGE RATHER THAN THE 1-1/2 TO 1-3/4 PERCENT FIGURE CITED PARA 2 ABOVE ALTHOUGH SOME OF THE DIFFERENCE MIGHT BE EXPLAINED BY WHETHER OR LOT DEALS WERE BEING MADE DIRECTLY WITH THE EGYPTIAN IMPORTER OR EXPORTER'S BANK AND REGISTERED AT THE CENTRAL BANK WITH PROVISION FOR REPAYMENT ON MATURITY; IF NOT, HIGHER SPREAD MIGHT REFLECT EXPECTATION OF DELAY IN PAYMENT. APPARENTLY MARKET CONSIDERS THAT THE SITUATION HAS BEEN EASED SOMEWHAT BY AUSTRALIAN GRAIN CREDITS; LIMITED OFFICIAL USE

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PL 480 ASSISTANCE; AND THE PROTOCOL WITH THE EC WHICH NATIONAL BANK OF EGYPT OFFICIALS HAVE TERMED FAVORABLE AND, IN A DIFFERENT CONVERSATION, CONCESSIONARY.

7. THIS SOURCE CONSIDERED THAT THE 1.8 BILLION DOLLAR FIGURE FOR SHORT-TERM FACILITIES MIGHT BE A BIT HIGH-- BUT IN QUANTITATIVE TERMS HE COULD NOT SUGGEST ANOTHER. HE SAID EGYPT HAD RECEIVED FUNDS FROM SAUDI ARABIA IN AUGUST AND SEPTEMBER WHICH WERE USED TO CLEAR UP SOME OF EGYPT'S SHORT-TERM DEBT. SAUDIS APPARENTLY LACK FAITH IN EGYPT'S ABILITY TO MANAGE ITS OWN FINANCES AND FOLLOW THE POLICY OF LETTING NATIONAL BANK OF EGYPT BUILD UP AN OVERHANG WHICH THE SAUDIS THEN HELP TO REDUCE. EGYPTIANS REPORTEDLY HAD BEEN SEEKING UP TO \$4 BILLION FROM THE SAUDIS IN RECENT MONTHS.

8. SOURCE SAID COMMERCIAL BANKS HERE HAVE BEEN DISCOURAGED BY TWO ANNOUNCEMENTS IN RECENT WEEKS MADE BY THE NATIONAL BANK OF EGYPT'S ENUMERATING IN TOTAL EGYPT'S GENERAL INTERNATIONAL DEBT AND DEBT TO THE RUSSIANS. GENERAL INTERNATIONAL DEBT FIGURE REPORTEDLY ABOUT \$15 BILLION, SOMEWHAT LARGER THAN THE BANKING COMMUNITY HAD EXPECTED. BANKS HAVE WONDERED ABOUT EGYPT'S MOTIVATION IN MAKING THE FIGURE AVAILABLE. PRESUMABLY IT AIMED AT GIVING CREDITORS MORE COMPLETE DISCLOSURE, THEREBY DEVELOPING GREATER CREDIBILITY AND HOPEFULLY OBTAINING GREATER SUPPORT. IF THESE WERE THE MOTIVES, THEY MAY HAVE BOOMERANGED. LONG TERM DEBT TO RUSSIA EXTENDS TO 20-YEAR MATURITIES. SOURCE WAS NOT FAMILIAR WITH DETAILS.

9. UK CLEARING BANK AND ARAB CONSORTIUM BANK OFFICIAL INDICATED THAT INITIAL GUT REACTION IN UK BANKING CIRCLES TO ANY ATTEMPTS TO BORROW FOR EGYPT WOULD BE "GET OFF MY BACK." ON REFLECTION, HOWEVER, THERE IS RECOGNITION THAT ALTHOUGH EGYPT HAS A "CHRONIC POSITION" IN TERMS OF ITS SHORT-TERM LIABILITIES, AID IS BEING POURED IN BY ARAB BROTHERS. BALKS DO NOT EXPECT TO LOSE ANY MONEY, BUT THEY ANTICIPATE DELAYS IN PAYMENT AND RESCHEDULING DIFFICULTIES. WHEREAS COMMERCIAL BANKS ARE HEAVILY INVOLVED

ON A COMMERCIAL BASIS, IT WOULD BE "BLOODY HARD IF NOT
IMPOSSIBLE" TO ATTEMPT TO RAISE A TERM LOAN OF \$100 MIL-
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LION, 7-YEAR MATURITY AT A 2-1/4 OR 2-1/2 PERCENT
SPREAD OVER LIBO. SUCH AN ISSUE WOULD HAVE NO CREDI-
BILITY IN THE MARKET. CONSORTIUM BANK REPRESENTATIVE
COMMENTED THAT SINCE THIS IS AN ARAB-EUROPEAN BANK, HIS
VIEWS WOULD BE MORE BULLISH THAN OTHERS, WITH HIS INSTI-
TUTION PREPARED TO ACCEPT LONGER EXPOSURE IF FUNDING
COULD BE ARRANGED FROM OPEC SOURCES. THE OBJECTIVE ECONO-
MIC INDICATORS ARE NOT GOOD BUT WITH THE SUEZ
CANAL OPEN AGAIN AND THE US TASK FORCE ESTABLISHED IN THE
SINAI, IT IS NECESSARY TO HAVE FAITH AND CONFIDENCE IN
EGYPT IN ORDER TO RATIONALLY PROCEED WITH LONGER TERM
LENDING ACTIVITIES. THE NASSER REGIME DESTROYED OR
SCATTERED A LARGE ELEMENT OF EGYPTIAN FINANCIAL INFRA-
STRUCTURE AND THERE REMAIN LARGE GAPS TO BE CLOSED, IN-
CLUDING TELEPHONE COMMUNICATIONS BETWEEN FINANCIAL IN-
STITUTIONS IN EGYPT AND LONDON.

10. US BANKS CITED AS BEING MOST ACTIVE IN LENDING ACTI-
VITIES TO EGYPT ARE CHASE MANHATTAN, FIRST NATIONAL CITY
BANK, FIRST NATIONAL BANK OF CHICAGO, IRVING TRUST COM-
PANY, MANUFACTURERS HANOVER TRUST AND BANK OF AMERICA.
BARCLAYS AND MIDLAND BANK WERE CITED AMONG BRITISH CLEAR-

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STR-04 CEA-01 AGR-05 INT-05 OES-03 FEA-01 IO-11 /115 W

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ERS AS BEING VERY ACTIVE. IN ADDITION, CONSORTIUM BANKS INVOLVING ARA PARTICIPATION WERE MENTIONED IN PASSING.

11. BANK OF ENGLAND SOURCES COULD NOT CONFIRM THE \$1.8 BILLION FIGURE IN REFTEL. ON CONFIDENTIAL BASIS, (PLEASE TREAT AS SUCH) THEY CITE BIS DATA FOR LIABILITIES AND CLAIMS OF BANKS IN G-10 COUNTRIES AND SWITZERLAND ON EGYPT. USING BIS DEFINITIONS, AS OF SEPTEMBER 30, 1975 LIABILITIES TO EGYPT (IE, EGYPTIAN SHORT AND MEDIUM TERM DEPOSITS WITH THESE BANKS) TOTALED \$1.424 BILLION EQUIVALENT. CLAIMS OF THESE BANKS ON EGYPT WERE \$837 MILLION. APPARENTLY THESE ARE MINIMUM FIGURES, EXCLUDING CANADA AND SWITZERLAND. WITHIN ABOVE TOTAL LIABILITIES OF BANKS IN UK WERE 209 MILLION POUNDS (ABOUT \$427 MILLION), CLAIMS WERE 95 MILLION POUNDS (ABOUT \$194 MILLION); SEE TABLE 22/0 DECEMBER 1975 BANK OF ENGLAND BULLETIN.

12. ASSUME BANKING FACILITIES FIGURE IN REFTEL MUST INCLUDE ITEMS NOT INCLUDED IN BIS DEFINITIONS. EQUALLY, GIVEN LOW FIGURES FOR UK CLAIMS, IT IS POSSIBLE THAT DEALS LIMITED OFFICIAL USE

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NEGOTIATED IN LONDON ARE BOOKED IN OTHER CENTERS. FINANCIAL ATTACHE REGRETS HE HAS BEEN UNABLE TO UNEARTH A SPECIFIC TOTAL SHORT-TERM BANKING FACILITY FIGURE OF EQUAL PROPORTIONS TO THAT IN REFTEL. THE INDIVIDUAL BANKS THEMSELVES ARE MORE CONCERNED WITH THEIR PARTICULAR LOANS AND THE UNDERLYING SECURITY FOR THEM RATHER THAN MAGNITUDE OF EGYPT'S TOTAL DEBT. NO ONE SPOKEN TO ANTICIPATES THAT THE BASIC SITUATION DESCRIBED IN MAIN TEXT ABOVE WILL CHANGE IN THE FORESEEABLE FUTURE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, ECONOMIC REPORTS, BANK SERVICES, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON02378
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760056-0170
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760251/aaaabsof.tel
Line Count: 326
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 29994
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2004 by ellisoob>; APPROVED <01 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GYPT'S SHORT-TERM BANKING FACILITIES
TAGS: EFIN, UK, EG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006